

COMMONWEALTH OF KENTUCKY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

RECEIVED

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PUBLIC SERVICE
COMMISSION

In the Matter of:

JOINT APPLICATION OF ORCHARD)
GRASS UTILITIES, INC. AND OLDHAM)
COUNTY SEWER DISTRICT FOR APPROVAL)
OF THE TRANSFER OF WASTEWATER)
TREATMENT FACILITIES PURSUANT TO)
AN ASSET PURCHASE AGREEMENT)
BETWEEN THE PARTIES)

CASE NO.
2004-00029

**Response of Orchard Grass Utilities Inc. and
Oldham County Sewer District to Commission Staff Data Requests**

DATA REQUEST 1. In the Joint Application for Approval of Transfer ("Joint Application") and the documents appended thereto, there is a discrepancy in the name of the acquirer. State whether the proper name of the acquirer is Oldham County Sewer District or Oldham County Sanitation District.

ANSWER: The name was changed to the Oldham County Sewer District on October 13, 2003.

DATA REQUEST 2. Refer to the Joint Application, Paragraph 2, page 2, wherein the Joint Applicants state that a copy of the resolution of the Oldham County Sewer District Board of Directors authorizing the transfer is attached. The attached resolution is unsigned. Has the proper Board of Directors authorized the transfer?

- a. If yes, provide a copy of the signed resolution.
- b. If no, explain why the Board of Directors has not authorized the transfer.

ANSWER: The resolution was approved by the OCSD Board on February 9, 2004, and is attached.

DATA REQUEST 3. Refer to the Joint Application, Paragraph 4, which states that Willow Creek wastewater treatment plant currently serves 335 customers in Oldham and Jefferson counties. State the number of customers currently served by Willow Creek in Jefferson County.

ANSWER: Approximately 125 of those customers live in Jefferson County.

DATA REQUEST 4. Refer to KRS 220.285, which provides:

The Board of Directors of a sanitation district may make contracts or other arrangement to provide for the collection, disposal and treatment of sewage and other liquid wastes produced outside of the district, as the board of directors may determine; provided, **however that this does not authorize a sanitation district to provide sewer service within a city of the first class except with permission of the board of alderman of such city.**

(Emphasis Added)

State whether Oldham District has received permission from the board of alderman of the Louisville Metro Government to provide service to the Jefferson County residents who are currently served by Willow Creek.

- a. If yes, provide the documentation to support the response.
- b. If no, explain why Oldham District has not obtained such permission.

ANSWER: Louisville Metro Government no longer has a Board of Aldermen and is no longer a city of the first class, having been reclassified by KRS 67C.101 as a consolidated local government. The area served by the Willow Creek plant is located outside the former city boundaries, and the provisions of KRS Chapter 67C suggest that the contracts and services will continue to be honored. In any event, OCSD expects the full cooperation of Louisville Metro Government and the Metropolitan Sewer District to insure continued service to these customers.

DATA REQUEST 5. The plant assets of Orchard Grass and the Willow Creek Sewer System had a combined recorded net utility plant value of \$1,758 on December 31, 2002 (original cost of \$375,367 less accumulated depreciation of \$373,609). According to the Agreement for Purchase and Sale of Corporate Stock filed with the application, Oldham District is going to pay \$675,000 for the two wastewater treatment plants. What impact will the difference between the purchase price and the net utility plant value have on the rates of the customers of Orchard Grass and Willow Creek Sewer System?

ANSWER: None. Orchard Grass and Willow Creek customers will continue to pay the rate established for all OCSD residential customers.

DATA REQUEST 6. In the event the Commission approves the transfer to Oldham District, explain what recourse the customers in the Willow Creek subdivision in Jefferson County will have if they experience problems.

ANSWER: Willow Creek customers will have the same recourse as all current OCSD customers, the same as those Jefferson County customers of the Ash Avenue plant which is also owned by OCSD.

DATA REQUEST 7. Describe how Oldham District and Orchard Grass determined the purchase price set forth in the Agreement for Purchase and Sale of Corporate Stock.

ANSWER: Negotiation for acquisition dates back to 1999. The appraised value of the treatment plants and collection systems (\$409,000), plus real estate (\$92,000) and capacity charges (\$174,000), resulted in a final offer of \$675,000 which was accepted.

DATA REQUEST 8. Provide a list of the individuals involved in the negotiations between Oldham District and Orchard Grass, including the relationship of each to Oldham District and/or Orchard Grass.

ANSWER: Individuals involved included:

For OCSD:	Forrest B. Ewen, President Richard Chadwell, former President Tom Simpson, former Director John Bennett, Jr., Chief Engineer Larry Williams, accountant Calvin Schneider, consultant Ed Schoenbaechler, attorney
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For Orchard Grass:	Carroll Cogan, President Rob Moore, attorney
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DATA REQUEST 9. Provide copies of any correspondence, memoranda or other documents describing the negotiations between Oldham District and Orchard Grass.

ANSWER: See attached.

DATA REQUEST 10. Refer to the February 23, 2004 letter from Rick Rash, Oldham County Magistrate, written in support of Oldham District's purchase of Orchard Grass.

a. In his letter, Mr. Rash states that "[t]he addition of another 1,050 customers should allow us to lower the rate." Provide a detailed explanation as to why the ratepayers of Orchard Grass should subsidize the rates of other subdivisions being served by Oldham District.

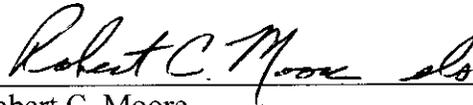
b. Provide a comparison of the rates currently being charged to the customers of Orchard Grass with the average bill using the current Oldham District rates. Include all workpapers, calculations, and assumptions used in the comparison.

ANSWER: Orchard Grass:	Current rate:	\$15.59 (flat rate)
	New rate:	\$7.67 + \$3.20/1000 gal
	Ave. usage (est.):	6,500 gal = \$28.47
Willow Creek:	Current rate:	\$18.45 (flat rate)
	New rate:	\$7.67 + \$3.20/1000 gal
	Ave. usage (est.):	5,200 gal = \$24.31

Respectfully submitted,



Edward L. Schoenbaechler
HALL, RENDER, KILLIAN, HEATH & LYMAN, P.S.C.
KHA Building, Suite 102
2501 Nelson Miller Parkway
Louisville, KY 40223
Counsel for Oldham County Sewer District



Robert C. Moore
HAZELRIGG AND COX, LLP
P. O. Box 676
415 West Main Street
Frankfort, Kentucky 40602
Counsel for Orchard Grass Utilities, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by first class mail, postage prepaid, on: Robert L. Madison, 5407 Baywood Drive, Louisville, Kentucky 40241-1318; and David Edward Spenard, Assistant Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601-8204, on this the 8th day of March 2004.



Edward L. Schoenbaechler

82988_1/ELS

MEMORANDUM

Date: May 18, 1998

To: Richard Chadwell

From: John M. Bennett, Jr. *JMB*

Re: Orchard Grass Utilities Meeting

A meeting was held between representatives of PDR Engineers, Inc., and Carroll Cogan of Orchard Grass Utilities, Inc. on May 7, 1998. The purpose of the meeting was to discuss details of acquisition of this sewer utility by OCSD. Also discussed was the acquisition of Willow Creek treatment plant near the Jefferson County line and Hayfield Utilities in the Goshen area. Specific items of discussion were:

- Existing facilities
- Treatment Plant Capacity
- Service areas
- Other developer requests for sewer service

A summary of the meeting is provided below.

Existing Facilities

Carroll Cogan purchased the sewage treatment plant from developers of Orchard Grass Hills subdivision. Treatment facilities consist of two separate package plant units. Initially, treatment facilities included a 100,000 gpd steel package extended aeration plant. This plant was replaced with a 300,000 gpd circular, steel treatment unit several years ago. The original 100,000 gpd tank is still sitting on site and according to Carroll has recently been cleaned. The plant KYPDES permit is for a 300,000 gpd design discharge, which is equivalent to 750 single-family residential homes.

Treatment Plant Capacity

According to monthly discharge monitoring reports submitted to the Division of Water in 1994, average flow into the Orchard Grass sewage treatment plant is approximately 68,300 gpd. It is certain that plant flows today are closer to 120,000 gpd or approximately forty percent utilization. Sewer service is currently provided to Orchard

Grass Hills, Graham Village Apartments (42 units), an office building and Dairy Mart on KY 22, both rest areas on I-71 and lots existing and planned in Poplar Hill and Briar Hill Estates. Graham Village is zoned for additional 38 apartment units and a small medical and dental center has been proposed in the commercial area of Orchard Grass Hills. There are approximately 407 homes now connected to the treatment plant. Flow calculations of PDR and J.R. Kiesel & Associates, Inc. are attached.

Service Areas

There are a total of 172 lots planned in Sections 1, 2 and 3 of Poplar Hill subdivision. Briar Hill Estates has a total of 328 additional single-family lots planned. Orchard Grass Utilities has two separate contracts with Bob Jones for 500 taps in these two subdivisions. When these two subdivisions are complete, about 846 homes will be connected to the Orchard Grass Hills plant. This is in addition to sewage flow from the I-71 rest areas and commercial customers on KY 22 now served by the treatment plant. Carroll said that no other developers have requested sewer service or have agreements for taps with Orchard Grass Utilities, Inc.

Carroll is interested in further discussing purchase by OCSD of all three of his treatment plants in Oldham County; Orchard Grass, Willow Creek and Countryside. Carroll feels that the most economical method of acquisition was for OCSD to purchase assets (plants and sewers) and for the utility to retain connection contracts. No specific value was discussed although a \$500,000 potential income from sewer taps in Poplar Hill and Briar Hill Estates was mentioned. A \$250,000 value for sewers and the Orchard Grass sewage treatment plant was mentioned for the purposes of discussion, not representative of any actual value or desired asking price. Carroll agreed to provide information for evaluating the worth of wastewater facilities by OCSD and PDR. A proposal for purchase will be prepared and another meeting will be scheduled for further discussions on a possible purchase arrangement.

cc: Kathy Wynne
Tom Simpson
Dave Servis
Carroll Cogan

OLDHAM COUNTY SANITATION DISTRICT

Memorandum

Date: January 14, 2002

To: OCSD Board Members

From: John M. Bennett, Jr., P.E. *JMB*
Chief Engineer

Re: Orchard Grass Utilities, Inc.

Orchard Grass Utilities, Inc. is a privately owned sewer utility that serves Orchard Grass Hills, Briar Hill Estates and Poplar Hill subdivisions in Oldham County. There are an estimated 591 houses currently connected to the treatment plant. The total number of houses approved for connection is 750. The plant also serves the Dairy Mart and Office center on KY 22, Graham Village Apartments and the two rest areas on I-71. The average wastewater flow to the Orchard Grass treatment plant for existing connections is approximately 240,600 gpd. Approximately 59,400 gpd of plant capacity originally approved by the Division of Water remains. Based on 400 gpd per connection, the treatment plant has capacity to handle additional wastewater flow 150 single-family homes.

Collection and Treatment Facilities

The Division of Water issued a KPDES permit (No. KY0033821) for the wastewater treatment plant with a design capacity of 300,000 gpd. The plant discharges into an unnamed tributary of South Fork Harrods Creek. Sewers flow by gravity into the influent pump station of the treatment plant.

Appraisal Report

In 1998 a property and market investigation and analysis necessary to establish an opinion of in-use value of the Orchard Grass wastewater system was performed by EC-CO Appraisal Services of Lexington, Kentucky. According to the appraisal report furnished to OCSD, the total Orchard Grass wastewater system has a value of \$257,655. The value of any available plant capacity was not included in the appraisal. As indicated in Table 1, the total system assets of Orchard Grass Utilities, Inc. including capacity has a value of \$323,213.

Revenue and Expenses

Annual revenue and expenses for the Orchard Grass sewer system are shown in Table 2. Current monthly sewer rate for system users is \$15.59 per month. Total gross annual revenue for existing customers is \$130,021. Annual operating expenses are estimated at \$84,206 when taken over by OCSD. Annual debt payment for construction improvements is estimated at \$16,250. A net revenue of \$29,564 per year is projected.

Table 1
SUMMARY OF APPRAISED VALUE
Orchard Grass Utilities, Inc.

Wastewater System Component	Unit	Quantity	Unit Price (\$)	Replacement Cost New	Total "As-Is" Value
Facilities					
12-inch VCP Sewer	L.F.	2,100	65.00	\$136,500	\$6,025
8-inch VCP Sewer	L.F.	12,675	45.00	570,375	28,519
8-inch PVC Sewer	L.F.	11,100	45.00	499,500	74,925
Sewage Pump Stations	EA.	1	40,000.00	40,000	10,000
4-inch PVC Force Main	L.F.	9500	6.00	57,000	8,550
Treatment Facilities	L.S.	1	582,750.00	582,750	43,463
Subtotal				\$1,886,125	\$171,482
Plant Site					
Piping, Landscape & Roadway	L.S.	1	\$66,469	\$66,469	\$10,170
Fencing	L.F.	800	15.70	12,560	1,884
Buildings & Enclosures	S.F.	600	45.00	27,000	4,050
Subtotal				\$106,029	\$16,104
Total System Value				\$1,992,154	\$187,586
Liabilities					
Treatment Plant Upgrades for Remaining Service Period					\$0
Collection System Investigation & Rehabilitation					0
Demolition & Restoration of Treatment Plant Site					0
Total Liabilities					\$0
Total System Net Worth					\$187,586
Real Estate (Plant)	Acre	5.8391	12,000.00	\$70,069	\$70,069
Property					0
Total Value of Assets					\$257,655
Value of Future Connections				60	\$84,900
Total Offer					\$323,213
Total Acquisition Value (Per Customer)					\$535.12

OLDHAM COUNTY SANITATION DISTRICT

Recommendation

It is recommended that OCSD move to purchase Orchard Grass Utilities, Inc. assets for a total price of \$418,500. This amount includes payment for all customers, facilities, property and real estate and available treatment plant capacity.

Table 2
ORCHARD GRASS UTILITIES, INC.
ANNUAL REVENUE PROJECTION
28-Dec-01

Current Monthly Fee:	\$15.59
Residential Customers	\$110,564
Graham Apartments	7,483
Kentucky Finance & Administration Cabinet	11,973
TOTAL REVENUE:	\$130,021
Annual O&M:	\$84,206
Annual Debt Payment for Improvements	16,250
Additional Annual Reserve	2,340
NET REVENUE:	\$27,224
Maximum Capital Investment with Current Rate	\$418,517

Carroll Cogan Companies
1706 Bardstown Road
Louisville, Kentucky 40205-1212
238-3301 / 238-3275
Fax 238-3329

September 9, 2002

Richard Chadwell, President
 Oldham County Sanitation District
 7311 Highway 329, Suite 542
 Crestwood, KY 40014

Re: Orchard Grass Hills Utilities, Inc. ("Orchard Grass"), d/b/a Orchard Grass
 Hills Sewer System ("Orchard Grass Hills")

Dear Mr. Chadwell,

As you are aware, for several months John Bennett and I have been discussing the Oldham County Sanitation District's ("OCSD") purchase of the Orchard Grass Hills sanitary sewage and treatment system from Orchard Grass. The following is Orchard Grass' formal offer to sell the Orchard Grass Hills sanitary sewer and treatment system to OCSD.

In return for a lump sum payment to Orchard Grass in the amount of \$709,375.00, Orchard Grass will convey to OCSD, As-Is, its Orchard Grass Hills sanitary sewer and treatment system. The sale price of \$709,375.00 was arrived at as follows:

- | | | |
|----|--|--------------|
| 1. | Basic treatment plant and collection system: | \$426,375.00 |
| | There are 713 current connections to this system. | |
| 2. | Sewage Treatment Plant site: | \$ 50,000.00 |
| | This site consists of 5.8 acres and can be expanded for mini-regional capabilities and/or for sludge disposal for OCSD facilities. | |
| 3. | The reconditioned original 100,000 gallon sewage treatment plant complete with two (2) blowers: | \$ 50,000.00 |
| 4. | Future connections (183) from contract with Briar Hill Estates and Poplar Hill Developer, Robert Jones: | \$183,000.00 |
| | These connections have a value of \$1,500.00 each but will be conveyed at a cost of \$1,000.00 each if purchased in bulk. | |
| 5. | Total | \$709,375.00 |

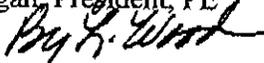
With respect to the future connections mentioned in item No. 4 above, for each additional connection made, OCSD obtains an asset with an approximate value of \$600.00 and a direct cash payment of \$500.00 when the connection is made. Furthermore, Mr. Jones' development calls for the construction of a large commercial and multi-family area adjacent to Orchard Grass Hills in the next five (5) to ten (10) years that Orchard Grass has not yet contracted to serve.

The 5.8 acre site mentioned in item No. 2 above could be marketed and sold for the development of lots. However, this tract may be better utilized as the location for a mini-regional plant until OCSD is able to build the infrastructure that would allow the elimination of some or all of the small sewage treatment plants owned by it. This site could also be used to address the sludge hauling costs incurred by OCSD.

I have enclosed a draft of a Purchase Agreement to be executed by Orchard Grass and OCSD concerning the Orchard Grass Hills sanitary sewage and treatment system for your review and comment. Of course, the terms contained in same are negotiable, but I thought this could provide a good starting point.

Please contact me if you have any questions concerning this offer. If possible, I would like to complete this transaction in 2002.

Sincerely,
Orchard Grass Utilities, Inc.


Carroll F. Cogan, President, PE


Attachment

Cc: John Bennett

PURCHASE AGREEMENT
by and between
Oldham County Sanitation District
and
Orchard Grass Utilities, Inc.

THIS AGREEMENT, made this _____ day of _____, 2002, by and between **ORCHARD GRASS UTILITIES, INC.**, (1706 Bardstown Road, Louisville, Kentucky), Party of the First Part (hereinafter called the "**GRANTOR**") and **OLDHAM COUNTY SANITATION DISTRICT**, (7311 Hwy 329, Suite 542, Crestwood, Kentucky), Party of the Second Part (hereinafter called the "**GRANTEE**").

WITNESSETH THAT:

WHEREAS, GRANTOR is the owner of certain wastewater collection, conveyance and treatment facilities located adjacent to and providing service to Orchard Grass Hills subdivision in the County of Oldham, in the Commonwealth of Kentucky; and

WHEREAS, GRANTEE desires to purchase and acquire ownership of all wastewater collection, conveyance and treatment facilities (hereinafter referred to as "Wastewater System") owned by the **GRANTOR** for the purpose of construction, operation, maintenance; and any reconstruction of sanitary sewers, pump stations, force mains, treatment facilities and related equipment, structures or materials, (hereinafter referred to as "appurtenances"), thereto together with the right of ingress and egress to said Wastewater System;

NOW, THEREFORE, GRANTOR agrees to convey and **GRANTEE** hereby agrees to purchase said Wastewater System upon the following terms and conditions:

1. The Orchard Grass Hills Wastewater System covered by this Agreement is generally shown on Exhibit 1, which is attached hereto and made a part hereof.
2. **GRANTOR** and **GRANTEE** hereby agree to jointly prepare and submit to the State of Kentucky, Public Service Commission ("PSC"), documents in order to obtain approval of the sale of the Orchard Grass Hills Wastewater System. It is expressly agreed that the sale of the Orchard Grass Hills Wastewater System is contingent upon the approval of the PSC.
3. **GRANTEE** agrees to acquire ownership of the Orchard Grass Hills Wastewater System and initiate operation and maintenance of same by January 1, 2003, contingent upon obtaining the approval of the PSC. This acquisition date can be revised by the agreement of the parties to this Agreement.
4. **GRANTOR** has disclosed the Wastewater System condition to **GRANTEE** and **GRANTEE** agrees to accept the Wastewater System owned by **GRANTOR** in an "as is" condition.

AUG 27 '02 09:51AM HAZELRIGG AND COX

Item 9, Sheet 10

5. **GRANTOR** will be allowed to collect all sewer fees and system invoices for services provided prior to January 1, 2003, or such other date as may be agreed to by the parties.
6. **GRANTEE** will assume responsibility for complete cleanup and restoration of the tertiary lagoon portion of the Orchard Grass Hills wastewater treatment plant site to the standards established by the Kentucky Natural Resources and Environmental Protection Cabinet.
7. **GRANTOR** covenants that they are lawfully seized and possessed of the property and facilities above described and conveyed. **GRANTOR** covenants that they have full right and power to convey the same and said property is free of all encumbrances, except current taxes and restrictions and/or mortgages of record.
8. The **GRANTEE** hereby agrees to pay to Orchard Grass Utilities, Inc., the sum of **SEVEN HUNDRED NINE THOUSAND THREE HUNDRED SEVENTY FIVE DOLLARS (\$709,375.00)** to purchase the Orchard Grass Hills Wastewater System on or before January 1, 2003, at which time, Orchard Grass Utilities, Inc., shall execute all documents necessary to convey the Covered Bridge Wastewater System to the **GRANTEE**.
9. The parties agree that this Agreement is to be governed by Kentucky law.

The undersigned **GRANTOR** and **GRANTEE** admit to having read the contents of this Agreement, and acknowledge receipt of a copy of same, and are not relying on verbal statements not contained herein.

IN TESTIMONY WHEREOF, witness the signatures of the parties hereto the day, month and year first above written.

OLDHAM COUNTY SANITATION DISTRICT

By: _____
Richard Chadwell, President

Date: _____

ORCHARD GRASS UTILITIES, INC.

By: _____
Carroll Cogan, President

Date: _____

Carroll Cogan Companies
1706 Bardstown Road
Louisville, Kentucky 40205-1212
238-3301 / 238-3275
Fax 238-3329

September 9, 2002

Richard Chadwell, President
Oldham County Sanitation District
7311 Highway 329, Suite 542
Crestwood, KY 40014

Re: Orchard Grass Hills Utilities, Inc. ("Orchard Grass"), d/b/a
Willow Creek Sewer System ("Willow Creek")

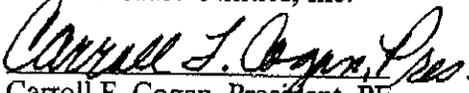
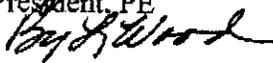
Dear Mr. Chadwell,

As you are aware, for several months John Bennett and I have been discussing the Oldham County Sanitation District's ("OCSD") purchase of the Willow Creek sanitary sewage system from Orchard Grass. The following is Orchard Grass' formal offer to sell the Willow Creek sanitary sewer system to OCSD.

In return for a lump sum payment to Orchard Grass in the amount of \$200,000.00, Willow Creek will convey to OCSD, As-Is, its Willow Creek sanitary sewer system. The addition of the Willow Creek system would certainly be a benefit to OCSD, as it serves 335 customers at a rate of \$18.45 per month, which rate has been in place since 1998. I have attached a draft of a Purchase Agreement for your review and comment.

Please contact me if you have any questions concerning this offer. If possible, I would like to complete this transaction in 2002.

Sincerely,
Orchard Grass Utilities, Inc.


Carroll F. Cogan, President, PE


Attachment

Cc: John Bennett

PURCHASE AGREEMENT
by and between
Oldham County Sanitation District
and
Orchard Grass Utilities, Inc.

THIS AGREEMENT, made this _____ day of _____, 2002, by and between **ORCHARD GRASS UTILITIES, INC.**, (1706 Bardstown Road, Louisville, Kentucky), Party of the First Part (hereinafter called the "GRANTOR") and **OLDHAM COUNTY SANITATION DISTRICT**, (7311 Hwy 329, Suite 542, Crestwood, Kentucky), Party of the Second Part (hereinafter called the "GRANTEE").

WITNESSETH THAT:

WHEREAS, GRANTOR is the owner of certain wastewater collection, conveyance and treatment facilities located adjacent to and providing service to the Willow Creek Subdivision in the County of Oldham (is part of it in Jefferson County?), in the Commonwealth of Kentucky; and

WHEREAS, GRANTEE desires to purchase and acquire ownership of all wastewater collection and conveyance facilities (hereinafter referred to as "Wastewater System") owned by the GRANTOR for the purpose of construction, operation, maintenance, and any reconstruction of sanitary sewers, pump stations, force mains and related equipment, structures or materials, (hereinafter referred to as "appurtenances"), thereto together with the right of ingress and egress to said Wastewater System;

NOW, THEREFORE, **GRANTOR** agrees to convey and **GRANTEE** hereby agrees to purchase said Wastewater System upon the following terms and conditions:

1. The Willow Creek Wastewater System covered by this Agreement is generally shown on Exhibit 1, which is attached hereto and made a part hereof.
2. **GRANTOR** and **GRANTEE** hereby agree to jointly prepare and submit to the State of Kentucky, Public Service Commission ("PSC"), documents in order to obtain approval of the sale of the Willow Creek Wastewater System. It is expressly agreed that the sale of the Willow Creek Wastewater System is contingent upon the approval of the PSC.
3. **GRANTEE** agrees to acquire ownership of the Willow Creek Wastewater System and initiate operation and maintenance of same by January 1, 2003, contingent upon obtaining the approval of the PSC. This acquisition date can be revised by the agreement of the parties to this Agreement.
4. **GRANTOR** has disclosed the Wastewater System condition to **GRANTEE** and **GRANTEE** agrees to accept the Wastewater System owned by **GRANTOR** in an "as is" condition.

Item 9, Sheet 13

5. **GRANTOR** will be allowed to collect all sewer fees and system invoices for services provided prior to January 1, 2003, or such other date as may be agreed to by the parties.
6. **GRANTOR** covenants that they are lawfully seized and possessed of the property and facilities above described and conveyed. **GRANTOR** covenants that they have full right and power to convey the same and said property is free of all encumbrances, except current taxes and restrictions and/or mortgages of record.
7. The **GRANTEE** hereby agrees to pay to Orchard Grass Utilities, Inc. the sum of **TWO HUNDRED THOUSAND DOLLARS (\$200,000.00)** to purchase the Willow Creek Wastewater System on or before _____.
- 8.
9. The parties agree that this Agreement is to be governed by Kentucky law.

The undersigned **GRANTOR** and **GRANTEE** admit to having read the contents of this Agreement and acknowledge receipt of a copy of same, and are not relying on verbal statements not contained herein.

IN TESTIMONY WHEREOF, witness the signatures of the parties hereto the day, month and year first above written.

OLDHAM COUNTY SANITATION DISTRICT

By: _____ Date: _____
Richard Chadwell, President

ORCHARD GRASS UTILITIES, INC.

By: _____ Date: _____
Carroll C. Cogan, President

DRAFT COPY

OLDHAM COUNTY SANITATION DISTRICT

COMMISSIONERS:
RICHARD CHADWELL
TOM SIMPSON
FORREST B. EWEN

Item 9, Sheet 14
Chief Engineer:
JOHN M. BENNETT, JR., P.E.

October 17, 2002

Mr. Carroll F. Cogan, P.E., President
Carroll Cogan Companies
1706 Bardstown Road
Louisville, Kentucky 40205-1212

Re: Purchase of Orchard Grass Utilities, Inc.

Dear Mr. Cogan:

Based upon your recent proposal for acquisition of Orchard Grass Utilities, Inc., the OCSD Board of Commissioners offers \$330,000 for wastewater collection and treatment facilities, other assets and all current and proposed customer sewer connections therein. For this amount OCSD will acquire all real estate, treatment facilities, sewers and pumping systems and any easements or right-of-ways controlled by Orchard Grass Utilities, Inc. This offer is based on OCSD purchase of all wastewater system assets for \$260,000 and the 5.84 acre treatment plant site for \$70,000. No offer for the reconditioned 100,000 gallon sewage treatment unit can be made at this time.

Concerning the contract with the developer of Poplar Hill and Briar Hill Estates for future connections, which are now less than 183, OCSD is willing to make a single payment of \$140,000. This is a discounted value for future revenue from those contracted connections that pay \$1,500 each at lot closing in the subdivision development period. An alternative to a single payment offer, OCSD is willing to equally split the contracted future connection fees for a period of five years. After that time, revenue from all contracted connections will be retained by OCSD.

Please do not hesitate to call if you have any questions or comments concerning this proposal.

Sincerely,

John M. Bennett, Jr. P.E.
Chief Engineer

Cc: OCSD Commissioners
Ed Schoenbaechler
Larry Williams

Carroll Cogan Companies
1706 Bardstown Road
Louisville, KY 40205
502-238-3301

OCSD
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January 10, 2003

John Bennett
Oldham County Sanitation District
7311 Highway 329, Suite 542
Crestwood, Kentucky 40014

Re: Orchard Grass Hill Utilities, Inc. ("Orchard Grass")

Dear John:

As we discussed, I do not think the counteroffer set forth in your letter to me of October 17, 2002, is fair and adequately compensates me for the sale of all of the assets of Orchard Grass to the Oldham County Sanitation District ("OCSD"). The Orchard Grass sewer system was purchased in the 1970's and at the time, I made a long-term commitment to provide quality, dependable sewer service and allow building and growth to continue without interruption over these many years. Homeowners, builders, real estate developers, and others have benefited as a result of these efforts, and the city and Oldham County recognized increased tax revenues due to the increase in land values. Unlike some sewer plant owners, I have been in the business for the long term, and not just to make a quick profit. Consistent with this philosophy, and as set forth in detail below, the Orchard Grass system was designed to handle a large number of connections and recent substantial investments have been made to the Orchard Grass system to maintain and upgrade the integrity of the system.

The offer made by the OCSD Board did not appear to take these factors into consideration. I cannot accept the offer forwarded to me on October 17, 2002, but am willing to consider a reasonable discounted price of \$638,438.00 based on the factors set forth below, if we can complete this transaction before or near the end of the year.

As you are aware, Orchard Grass serves a large number of connections (710) from a single plant, which is unlike other systems that you have purchased. You and the OCSD Board Members are fully aware of the advantages gained from serving this large number of connections from a single location, which includes savings in time, personnel costs, and treatment costs. Furthermore, there are at least an additional 183 connections that will be made to this plant pursuant to the existing contract with Briar Hill Estates and Poplar Hill developer, Robert Jones. Accordingly, approximately 900 homes will be served from this single location in the near future. Under this discounted offer, I will receive \$900.00 for each of these 183 connections while the OCSD will actually receive, by contract, \$1,500.00 for each connection. Accordingly, OCSD will receive over \$100,000.00 in connection fees over and above the amount it pays for these connections, if my counteroffer is accepted.

John Bennett
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Additionally, the additional 183 connections do not take into consideration the large commercial development currently under development by Mr. Jones that can be served by the Orchard Grass plant. Contacts with the office of the Oldham County Planning & Zoning Commission will confirm that Mr. Jones' development has been approved and is in the preliminary stage. This commercial development of approximately 25 acres of shopping, multi-family, and commercial development will add the residential equivalent of approximately 100 single-family homes. These additional connections will certainly add to the value and profitability of this system.

Furthermore, Orchard Grass and the Kentucky Transportation Cabinet jointly invested approximately \$400,000.00 to connect the two rest areas on I-71 to the Orchard Grass system. A south pump station and a north pump station were installed to pump through a force main to the treatment plant, and borings were made under lanes of I-71 to install this force main. This force main and associated easement may be used for future development in the adjacent area.

In order to maintain the integrity of the Orchard Grass system, over \$10,000.00 per year has been invested in the original system in each of the last five years. A video camera survey of the original Orchard Grass Hills sewers serving more than 330 homes has been completed and these video tapes are available for your review. Considerable repairs to mains, manholes and property service connections were made as a result of this video survey and the records substantiating these repairs are available for your review. Furthermore, all new sewer lines that have been added to the Orchard Grass system since 1995 are new plastic pipe, which prevents any infiltration during storm events.

I would match the maintenance record of Orchard Grass against the records of any of the other systems that have been purchased by the OCSD, and will welcome the interview of the field personnel that operate, maintain and repair this system by OCSD representatives. Any review by OCSD will reflect that, due to this effort to upgrade and maintain the system, any repair work and associated costs will be minimal should OCSD purchase the Orchard Grass system. It has been my understanding that this has not been the case with several other systems purchased by OCSD.

During recent discussions with representatives of the Bullitt County Sanitation District ("BCSD"), I was informed of a number of problems with sewage treatment plants and collection systems that BCSD purchased from an individual in Bullitt County, which led to severe operational problems and repair and replacement of major equipment items due to lack of maintenance. This same individual sold treatment plants to OCSD, and you may have encountered similar problems. The proper maintenance of the Orchard Grass system justifies a higher purchase price than that reflected for "other" sewage treatment systems reflected on the chart forwarded to me. Again, we will welcome an inspection of the Orchard Grass system by you and the representatives of OCSD.

John Bennett
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 January 10, 2003

In making its current counteroffer, OCSD may have overlooked the fact that the large 5.8 acre plant site allows for possible future plant expansion or development of this site as a mini-regional system. Along these lines, the purchase of the original 100,000 gallon plant at the site will help to serve any future needs due to expansion.

To summarize, the positive assets of Orchard Grass include:

1. There are currently 710 connections being served from this plant, and there will be over 900 connections to the plant in the next few years;
2. The construction of a large commercial development is underway that can provide additional connections to the plant;
3. The future connections to the plant will provide OCSD with a positive cash flow for this plant;
4. The forcemain under I-71 may be used for access to other areas that may be served by the plant;
5. The 5.8 acre site is useable for expansion of this plant or for a miniregional treatment system. The original 100,000 gallon plant could be an integral part of any expansion;
6. The complete video survey of the original Orchard Grass Hills sewers with some 330 homes;
7. Considerable repairs and maintenance have been made to the system as a result of the video survey at a cost of over \$10,000 in the last five years;
8. All new sewers that have been added are plastic pipe, which do not contribute to infiltration; and,
9. Orchard Grass has a record of providing competent sewer service to its customers for over 25 years, while meeting the requirements of all applicable agencies.

Again, I believe these factors, and others, more than justify the proposed sale price of \$638,438.00, which was arrived at as follows:

1. Basic treatment plant and collection system:	\$426,375.00 x 90%	\$383,738.00
2. Sewage Treatment Plant:	\$ 50,000.00 x 90%	45,000.00
3. Recondition original 100,000 gallon sewage treatment plant complete with 2 blowers:	\$ 50,000.00 x 90%	45,000.00
4. Future connections (183) from contract with Briar Hill Estate & Poplar Hill developer, Robert Jones:	\$183,000.00 x 90%	<u>164,700.00</u>
	Total	\$638,438.00

\$126,083

24,700

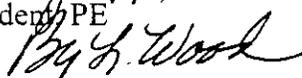
While I believe the original price of \$709,375.00 is a fair price, I am willing to consider the above price if this transaction can be completed by early this year. I, like you, have been

John Bennett
Page Four
January 10, 2003

searching for a fair and equitable resolution to these negotiations, but have been somewhat confused by the basis for the OCSD's offer. The above information and offer should provide the Board with the information and reasonable price that it needs.

Please contact me after you have reviewed this offer so that we can discuss same. I look forward to speaking with you at that time.

Sincerely,
Orchard Grass Utilities, Inc.


Carroll F. Cogan, President PE


Cc: Richard Chadwell, President, OCSD
Rob Moore

OLDHAM COUNTY SANITATION DISTRICT

Item 9, Sheet 19

COMMISSIONERS:
RICHARD CHADWELL
TOM SIMPSON
FORREST B. EWEN

Chief Engineer:
JOHN M. BENNETT, JR., P.E.

June 25, 2003

Mr. Carroll F. Cogan, P.E., President
Carroll Cogan Companies
1706 Bardstown Road
Louisville, Kentucky 40205-1212

Re: **Purchase of Orchard Grass Utilities, Inc. and Willow Creek Utilities, Inc.**

Dear Carroll:

Based on your letter of January 10, 2003, OCSD has reevaluated its previous offer to acquire the Orchard Grass and Willow Creek wastewater collection and treatment systems. To clarify our position, there are several specific items that have been considered by OCSD.

1. Fair market real estate values for the treatment plant sites in their entirety are now included in the analysis. The original appraisal only included land area for existing plant facilities.
2. Investments which you have made to maintain and upgrade the wastewater systems are recognized. For this reason anticipated expenses for system rehabilitation or repair at Orchard Grass were lowered in our financial analysis. However the Board does anticipate certain additional expenses with the acquisition of the Willow Creek system.
3. The number of customers served by the two systems has always been a factor. In 2002 OCSD acquired a system serving approximately 1,800 customers, which did not include 500 remaining connections under contract but not yet served. This issue must be fully considered.
4. Future development - either commercial or residential - is not a consideration of value. OCSD requires new development to pay for all legitimate costs to provide sewer service. This includes costs for easements, system capacity and any capital improvements applicable to serving the proposed development.
5. Preliminary plans for any new development in Oldham County, regardless of the entity providing wastewater treatment, require OCSD approval. Depending on circumstances involved with the development, OCSD is in a position to control customer connections within its service boundary.

Further, we propose several important changes to the acquisition agreement:

- a) OCSD is prepared to execute an agreement for purchase and sale of corporate stock which results in a substantial tax savings to the seller.

P:\Utility Acquisitions\CoganCo\FinalOfferLetter06-25-03.DOC

7311 Highway 329, Suite 605
P.O. Box 809
Crestwood, Kentucky 40014

Phone: (502) 243-3215 **Fax:** (502) 243-0802 **e-mail:** ocsdjmb@bellsouth.net

- b) Upon closing OCSD will own all corporate stock of both companies, thereby acquiring all real estate, easements, wastewater treatment facilities, collection systems and all other tangible and intangible assets.
- c) Effective on closing date OCSD will collect all revenue including connection fees and accounts receivable.
- d) A single payment at closing will be made with no further payments or financing involved.
- e) The purchase price must be the entire debt amount assumed by OCSD as a result of this acquisition. Therefore, as to both corporations, we would expect that all liabilities will be paid (or released) prior to closing. In effect, we need to treat this as closely as possible as an asset deal, eliminating all liabilities. A balance sheet for each corporation showing the eliminated liabilities should be provided at closing.
- f) Consistent with Item (e) above, we would expect a certification at closing that there are no known or anticipated contingent liabilities which have not been specifically disclosed in writing prior to signing the Agreement.

OCSD is prepared to offer \$675,000 for both wastewater systems and all customers. For this amount OCSD will purchase remaining contract connections, treatment facilities, collector and interceptor sewers (including television inspection tapes, reports and repair records), pumping stations, any controlled easements or right-of-ways, plant properties, and reconditioned 100,000 gallon plant with blowers. The items detailed in this letter would be incorporated into the new agreement. We would also need you to provide us with a current balance sheet and income statement from both corporations as soon as possible.

This offer would also be contingent upon assurances being provided to OCSD that substantial losses reported to the Public Service Commission are not typical on an annual basis. In addition, the number of contract connections not yet made must be documented as part of due diligence efforts by both parties in finalizing terms and conditions of a purchase agreement.

If you are interested in this latest acquisition proposal, please let me know.

Sincerely,



John M. Bennett, Jr. P.E.
Chief Engineer

cc: OCSD Commissioners
Ed Schoenbaechler
Larry Williams

P:\Utility Acquisitions\CoganCo\FinalOfferLetter06-25-03.DOC

7311 Highway 329, Suite 605
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Crestwood, Kentucky 40014

Phone: (502) 243-3215 **Fax:** (502) 243-0802 **e-mail:** ocsdjmb@bellsouth.net

6/25/3

ORCHARD GRASS & WILLOW CREEK
COMBINED OFFER

Item 9, Sheet 21

Treatment Plants & Collection Systems \$ 364,000

Real Estate 92,000

100,000 gal. package plant 45,000

117 new connection @ \$1,000 each 117,000

Total Offer \$ 618,000

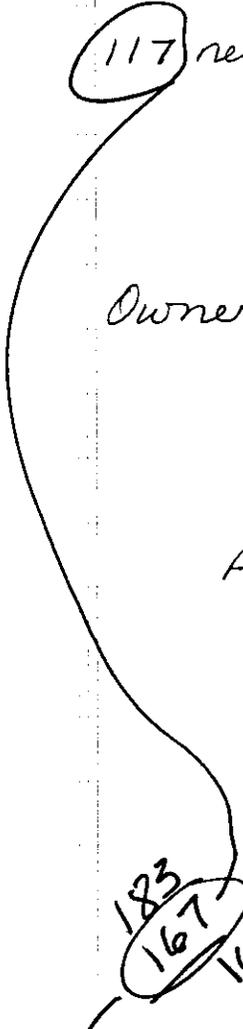
Owner proposal for same \$ 838,438

Difference \$ 220,438

Additional offer increase \$ 57,000

Final Offer \$ 675,000

Difference \$ 163,438



183
167
16,000

50 Sect 8
Prin Hill